

## Message Text

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21

ACTION AF-06

INFO OCT-01 ISO-00 EB-07 L-03 H-02 INR-07 PM-03 PRS-01

SS-15 SP-02 INRE-00 SSO-00 /047 W

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O 301600Z JUL 75

FM AMEMBASSY LUSAKA

TO SECSTATE WASHDC IMMEDIATE 1917

C O N F I D E N T I A L LUSAKA 1430

STADIS //////////////////////////////////////

FOR AF/E DEPUTY ASST SECY BLAKE FROM AMBASSADOR

EO 11652: GDS

TAGS: EFIN, ZA

SUBJECT: EXIM LENDING POLICY

REF: LUSAKA 1425, 1366; STATE 175857, 158106

1. WOULD BE MOST GRATEFUL IF YOU WOULD TAKE A PERSONAL INTEREST IN THE STORM WHICH IS BREWING BETWEEN ZAMBIAN GOVT AND EXIM BANK OVER LATTER'S LEDING POLICY TO MINING COMPANIES, AS I FEAR WE MAY BE HEADED FOR TROUBLE IN OUR BILATERAL RELATIONS BECAUSE OF ZAMBIAN PERCEPTION OF LACK OF FLEXIBILITY ON EXIM'S PART.

2. MATTER CONCERNS APPARENT SUDDEN SHIFT IN EXIM POLICY REQUIRING GOVT GUARANTEE ON EXIM LOANS TO TWO MAJOR MINING COMPANIES IN WHICH FOREIGN INTERSTS HOLD 49 PERCENT SHARES WHILE GRZ HOLDS 51 PERCENT. NOTWITHSTANDING ZAMBIAN GOVT 51 PERCENT EQUITY PARTICIPATION ACQUIRED IN 1970, EXIM MADE TWO LOANS IN 1972 TOTALING \$22.6 MILLION. HOWEVER, SINCE GRZ IN NOVEMBER 1974 ABROGATED MANAGEMENT AND SALES CONTRACTS OF MINORITY SHARE-HOLDERS (ANGLO AMERICAN OF SOUTH AFRICA AND AMAX OF US) AND PRESIDENT KAUNDA APPOINTED ZAMBIAN MANAGING DIRECTORS TO REPLACE EXPATRIATE MD'S, EXIM HAS TAKEN POSITION THAT NCHANGA AND ROAN ARE NO LONGER INDEPENDENT, RATHER ARE "UNDER EFFECTIVE  
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GRZ CONTROL". THIS VIEW IS CONTESTED BY GRZ AND BY ZAMBIAN

REPS OF TWO MINING COMPANIES AND QUESTIONED AS WELL BY ANGLO AND AMAX REPS IN LUSAKA BUT ADMITTEDLY NOT VIGOROUSLY.

3. EXIM CLAIMS GOVT HAS "POTENTIAL FOR EXERTING INFLUENCE ON FUTURE OPERATIONS AND PROFITABILITY" OF MINING COMPANIES BUT THIS STRIKES ME AS RATHER TENUOUS REASONING. GOVTS IN MANY COUNTRIES INCLUDING OUR OWN HAVE POTENTIAL FOR EXERTING ALL SORTS OF INFLUENCE ON PRIVATE INDUSTRIAL SECTOR BUT MORE REASONABLE KEY QUESTION WOULD SEEM TO BE WHAT IS LIKELIHOOD OF THEIR EXERCISING THIS POTENTIAL AND IN WHAT DIRECTION -- THAT IS, TO PRODUCE, EXPORT AND EARN MORE, OR LESS -- TO BE IN BETTER OR WROSE POSITION TO PAY OFF CREDITORS.

4. LOCAL SENSITIVITIES ARE ARUNNING HIGH BECAUSE OF FUNADMENTAL BELIEF WHICH HAS BEEN ARTICULATED BY MINING MINISTER THAT BLACK ZAMBIAN MANAGERS ARE BEING JUDGED BY EXIM BANK AS LESS COMPETENT TO RUN PROFITABLE OPERATION THAN WHITE EXPATRIATES; ALSO THERE IS SENSITIVITY BECAUSE NO ONE FROM EXIM BANK ACCEPTED INVITATION TO COME TO ZAMBIA FOR CENTRAL BANK OPENING--AS DID MANY EUROPEAN AND AFRICAN BANKERS--TO TALK MATTER OVER, AND REACH UNDERSTANDING.

5. ZAMBIANS ARE MOST SENSITIVE ON EXIM BANK POLICY REQUIRING GOVT GUARANTEE BECAUSE THEY SEE OUTCOME OF THIS DISPUTE AS BEING CRITICAL FOR THEIR GENERAL CREDIT STANDING WORLD WIDE, FEARING THAT IF EXIM IS MORE DEMANDING ON SUPPLIERS CREDITS THIS WILL MAKE BORROWING ON NEW YORK, LONDON AND OTHER MARKETS EVEN MORE DIFFICULT FOR ZAMBIANS AT TIME WHEN THEY DESPERATELY NEED FOREIGN CREDITS WITH SLUMP IN COPPER MARKET, CORRESPONDING DROP INFOREIGN EXCHANGES RESERVES TO FEW WEEKS IMPORT COSTS AND LOSS OF TAX REVENUES.

6. WOULD HOPE STATE COULD INTEREST ITSELF IN PERSUADING APPROPRIATE POLICY LEVEL AT EXIM BANK TO EXERCISE SOME FLEXIBILITY IN VIEW OF URGENT NEED TO CONFIRM DELIVERIES WITH US SUPPLIERS BY APPROVING THESE PENDING LOANS FOR \$8.3 MILLION AND \$6.7 MILLION TO RCM WITHOUT GOVT GUARANTEE.

7. FOR EXIM BANK TO URGE GRZ TO BE OBLIGOR AS WAY OUT OF PRESENT IMPASSE IS BASICALLY A CONTRADICTION IN TERMS AND UNDERMINES EXIM'S OWN ARGUMENT AS IT DRAWS GRZ MORE DIRECTLY  
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INTO MINING COMPANY FINANCES THAN HERETOFORE. BESIDES IT WOULD DELAY SUPPLY OF MUCH NEEDED EQUIPMENT FOR PROFITABLE OPERATIONS AND WOULD PROBABLY REQUIRE RENEGOTIATION OR AT LEAST CONSULTATION BETWEEN MINING COMPANIES AND COMMERCIAL BANKS FOR THEIR PORTION OF LOAN.  
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## Message Attributes

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